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SUBJECT: UN DEMOCRACY FUND: ALLEGATIONS OF WASTE AND MISMANAGEMENT

REF: 06 USUN 02248

Classified By: USUN Acting Permrep Ambassador Wolff, Reasons 1.4 (b)/(d)

¶1. (C) SUMMARY. As the UN Democracy Fund (UNDEF) Office claims to have commenced disbursements of donors' funds to projects overseas, USUN has made repeated requests for transparent accounting and reports on project management. We have not yet received an adequate response. In the meantime, a well-placed informant who works in the UN (strictly protect) shared concerns on February 22 of waste in UNDEF headquarters operations and widespread mismanagement. Concerns addressed: lack of financial accounting; incompetence in grant management; and cronyism. Among other corrective measures, USUN intends to seek an immediate meeting with the UN Comptroller General and to request an OIOS audit of the UNDEF trust fund activities and operation. End Summary.

INADEQUATE ACCOUNTING

¶2. (SBU) In the year that has elapsed since the first Board meeting of the UN Democracy Fund (UNDEF) in March 2006, the small UN Secretariat staff has made substantial progress in soliciting projects and facilitating Board consensus on the selection of some 125 projects to promote democratic governance around the world. Throughout this period, UNDEF has attracted more than \$50 USD million in donations from 27 nations, led by the U.S., India and Australia. Japan has recently pledged its first contribution of \$10 USD million. While the UNDEF concept has thus gained positive traction, its small secretariat staff have unfortunately failed to respond to U.S. requests to provide any accounting of income and expenditures, including for project disbursements, the travel of UNDEF officials or evaluation of the projects funded.

¶3. (C) While we anticipated that UNDEF would require a substantial startup period, USUN initially became concerned about cost of some two months of overseas travel for UNDEF Acting Director Magdy Soliman-Martinez (Spain) and the official to whom he reports, Amir Dossal, Executive Director of the UN Fund for International Partnerships (UNFIP). Queries about travel funds, which the U.S., India and Australia raised privately with the Secretariat as well as at experts' meetings, remained unanswered. Soliman-Martinez will depart next week for South Africa, a purported two-week sojourn, the funding for which might also come from trust fund donations. In addition to questions about travel, our inquiries about the flow of funds to field projects also failed to elicit any data. At the last UNDEF Board meeting in December 2006 (reftel), the U.S. proposed a transparent quarterly accounting schedule. Martinez-Soliman responded with a hedge (reflected in Board minute notes) that "more frequent statements could be provided." He claimed that the

administrative costs of the Fund represented 3.4% of the budget. However, no financial reports followed. In the absence of any reports, U.S. Acting Permrep Ambassador Wolff sent a letter to Dossal on February 13, 2007. The letter referenced the U.S. request at the December Board meeting and cited UN financial regulations that require the release of comprehensive records of the assets and liabilities of UN trust funds. Ambassador Wolff requested that UNDEF quarterly reports provide a current accounting of deposits, project expenditures and a breakdown of administrative expenses.

¶4. (C) On February 22, a well-placed and credible UN employee (strictly protect) approached USUN confidentially to report that our requests for information had generated considerable anxiety in the UNDEF office. Source claimed accounting records had not been maintained, and that the two Directors may indeed have traveled extensively on UNDEF funds. Of further and more troubling concern, source described a chaotic situation attending the assessment and flow of funds to most of the democracy projects, which the UNDEF Secretariat staff had supposedly failed to manage and had recently offloaded onto a UN Development Program (UNDP) office.

ALLEGATIONS OF PROJECT MISMANAGEMENT/ OFFLOADING

¶5. (C) Source described a situation in which a small UNDEF staff, lacking experience in grant management, had failed to carefully assess and verify the credentials of many of the NGOs seeking money. Basic questions had not been posed, including size of the annual budgets of lesser known NGOs, their length of establishment, track records and the size of their staffs. Consequently, some fledgling field

organizations with annual budgets of less than \$20,000 USD were imprudently authorized disbursements of up to \$350,000, for example. Finally, in response to U.S. inquiries and in acknowledgment of their inability to manage the projects, UNDEF had recently transferred most of the caseload to UNDP.
(Note: At a meeting on February 21 to discuss a separate possible U.S. trust fund initiative to promote entrepreneurship, UNDP Deputy Director Bruce Jenks acknowledged serious management problems with UNDEF. However, he did not elaborate or reveal that project management had been transferred to his own organization.)

¶6. (C) The informant showed USUN records of some 123 projects; 80 of them appeared to be recently routed to UNDP as the "executing agency," at an administrative cost of 5 percent for each project in addition to what was described as a standard \$25,000 USD fee to produce a monitoring/evaluation report on each one. According to source, none of this information was intended to be shared with donors, as the UNDEF secretariat itself was entrusted with these responsibilities. In the meantime, when UNDP unexpectedly called upon its overseas staff to confirm the activities of these far-flung organizations, Resident Coordinators reacted with a backlash of complaints about the requirement to suddenly locate and monitor many of the projects. Jenks reportedly had to mediate.

CONSEQUENCES OF CRONYISM

¶7. (C) Source described a staffing situation inside the UNDEF office in which Soliman-Martinez had brought on board a close colleague from UNDP who had no background or proclivity for grant management to serve as the Senior Program Analyst in charge of all the project applications and processing. Source further alleged that the employee who currently serves as UNDEF Board Secretary has had little interest or knowledge of program activities - an allegation that unfortunately conforms with USUN impressions. This employee has been unable to answer substantive questions.

¶8. (C) Soliman-Martinez has clearly sided with European special interests for UNDEF. He has advocated for the use of funds to support the travel of NGOs to European conferences (at the expense of field projects), backing down only when the U.S. persistently objected. He has maneuvered (unsuccessfully) to pave the way for EC participation on the Board that consists of country donors. The French and Hungarian missions are currently advocating for an extension of the tenure of Soliman-Martinez. The Director's position was belatedly advertised (several months behind schedule) only after intense U.S. and Australian urging. In the meantime, the wife of the French expert to UNDEF has supposedly accepted an (unsalaried) position as an intern in the UNDEF Secretariat, causing further demoralization among the staff members, according to source. The job search for a new UNDEF Director will provide a timely opportunity to address cronyism and other issues.

COURSE CORRECTION/ COMMENT

¶9. (C) Indications of waste and mismanagement are unfortunately prevalent in many offices at UN headquarters. It is thus not entirely surprising that a culture of inaction, favoritism and incompetence may have begun to take root within UNDEF. The challenge we confront is to promptly effect course corrections for this otherwise worthy and innovative program, in concert with the Department's continuing support and guidance. USUN will seek an immediate meeting with UN Comptroller Warren Sach who is responsible for all Trust accounts of the UN, to discuss concerns and request a comprehensive programmatic as well as financial audit of the UNDEF by OIOS.

¶10. (C) Timing of the job search for a new UNDEF Director is fortuitous. The UN Secretariat is currently reviewing job applications, and members of the Advisory Board will receive a chance to comment and participate in the selection process. We are aware of at least one candidate from outside the UN (an Australian) who appears to be dynamic and promising; we believe there are others who can successfully challenge the Soliman-Martinez incumbency. In the meantime, U.S. Ambassador Terry Miller plans to meet with his counterparts from the Australian and Indian Missions shortly to coordinate other remedial steps, including a strong request to Dossal to postpone ongoing placement activities to allow the future Director to select his own subordinates as the contracts of the incumbents expire. (Dossal is reportedly attempting to replace them all now with his own associates in advance of a possible change of Director.)

¶11. (C) In addition to seeking to build Board support for a critical review and overhaul of UNDEF staffing and management, USUN plans to revisit the Terms of Reference with a view to possibly recommending additional language (perhaps as an annex) to strengthen terms of accountability, reporting, and Board prerogatives. We will attempt to analyze lessons learned and their applicability to future trust fund initiatives. While UNDEF is currently lodged under the UNFIP umbrella, we may want to consider options for a possible transfer to a more appropriately staffed, alternative UN institution.

WOLFF